Circle K: using the art of acquisition to hit 5,000

PHOENIX, Ariz. — Circle K Corp., a chain that has tripled in size in the past three years, expects to operate 5,000 stores by 1990, according to the firm's in-house magazine, *Kountertalk*.

This locally based chain had 1,221 stores in 12 states at the end of fiscal 1983 (April 30, 1983). Today, it operates more than 3,400 units in 27 states.

Reaching its stated goal in the next four years will take commitment to what the magazine termed "the art of acquisition."

Bo Bobertz, Circle K's manager of tax, explained some of the advantages of acquisition as a method of growth and described how the process works.

"One reason [for acquisition] is that we can't internally grow fast enough to meet our 5,000-store goal," he said.

Because of the complexities involved, the chain can only build between 100 and 200 new stores a year. Such complications include site location, then processing each location through zoning and construction phases.

"It's tough purchasing good locations these days," Bobertz said, "especially in areas that already are well established.

"Even if we could expand fast enough that way, it would take between nine and 12 months for each new store to become fully operational" and attract the customers that a store needs to become profitable, he added.

Stores gained through acquisition come with an already-established customer base. "We virtually make money as of the day we take over" an acquired site, Bobertz said.

Another advantage in acquisition is the ease and quickness it affords in establishing a solid identity and dominance in the market. Newly constructed stores, on the other hand, are put into competition with other well-known chains.

"There's a name association that takes place. So, by acquiring a chain outright, we enhance our ability to compete."

Structure of acquisitions

Bobertz bases his comments on experience. In the past three years, Circle K has completed five acquisitions, beginning with the 1983 purchase of 960 UtoteM stores.

Most acquisitions are structured in one of two ways, he explained: either as an asset acquisition or stock acquisition.

Under an asset acquisition, such as Circle K's purchase of 186 National Convenience Stores earlier this year, a company buys tangible items. This could include land, buildings, equipment and/or inventories. It does not buy the entire company.

A stock acquisition usually occurs when a company is publicly held, and involves buying the entire company. The purchaser then assumes liabilities in addition to the assets and operations of the acquired company.

Any purchase process typically begins by directly approaching another company or through receipt of a "selling document," which details a company's assets, earnings and liabilities.

"We look at a company's value in three ways," Bobertz said, "from an earnings, assets and operational standpoint."

When studying earnings, he added, Circle K looks at the company's total sales plus any additional income or savings Circle K could produce through the acquisition.

Additional income could come from adding foodservice programs, for example. Savings could result from applying Circle K's purchasing power leverage in dealings with vendors.

Asset evaluation

When evaluating assets, Circle K looks at the value of what the company owns (buildings, land) and at intangible assets.

Examples of intangible assets could include existing store leases that would cost Circle K more if negotiated today, or an existing debit card program that would eliminate start-up costs.

General operational information also is important, according to Bobertz. The physical appearance of the available stores, the backgrounds and management styles of its people, the checks and balances in effect, and its overall potential for profitability play key roles in evaluating this aspect.

Various members of Circle K's management team become involved in the acquisition process, he said.

Management gathers available financial information and makes some assumptions based on performance, opportunity and past history. Then Bobertz steps in, using this information to predict high- and low-end profit margins and determine a fair purchase price.

"We've been through enough acquisitions to pretty much know how to assign worth and value," he said.

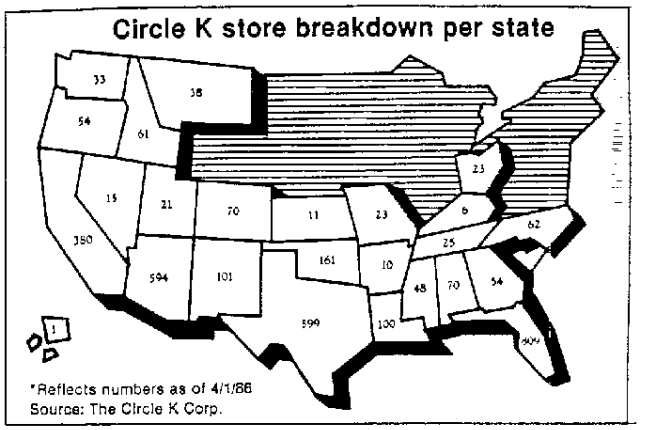
"You look at the track record of [Karl] Eller [Circle K chairman] and the length of time [Bob] Hutchinson [Circle K president] has been in this business and you know they will make valid assumptions."

When asked what Circle K has learned from its acquisitions, Bobertz said the key was the importance of the "people" side of a business deal.

"The numbers are fairly cut and dry. I think the one thing we've learned is to handle the acquisition better from a people standpoint.

"We've learned to talk to them more up front, explain things better, and we've developed better training."

Circle K will be using that knowledge — the art of acquisition — frequently in the future. In order to reach its 5,000-store goal by 1990, the chain must gain 200 to 400 units a year until then.—CSN



Circle K, which has more than 3,400 units, plans to reach 5,000 by 1990.

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